

December 27, 2021

Toyota Financial Services India Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	1,700.0	1,700.00	[ICRA]AAA(Stable); reaffirmed
Non-convertible debentures	0.00	300.00	[ICRA]AAA(Stable); assigned
Long-term fund-based facilities	1,040.0	1,040.0	[ICRA]AAA(Stable); reaffirmed
Short-term fund-based facilities	157.5	157.5	[ICRA]A1+; reaffirmed
Commercial paper	1,000.0	1,000.0	[ICRA]A1+; reaffirmed
Total	3,897.5	4,197.50	

*Instrument details are provided in Annexure-1

Rationale

The ratings consider Toyota Financial Services India Limited's (TFSIN) strong parentage, given its position as a wholly-owned subsidiary of Toyota Financial Services Corporation¹ (TFSC), which, in turn, is a wholly-owned subsidiary of Toyota Motor Corporation² (TMC/ultimate parent). By virtue of its parentage, the company receives significant operational, financial and management support from TFSC and TMC. Its board of directors and senior management team have representatives from TFSC and TMC's local manufacturing arm – Toyota Kirloskar Motors Private Limited (TKM). This, together with the shared brand name and the integration with the TMC group, reflects TFSIN's significance to the Group. The ratings also take note of the company's adequate risk management and control systems, its comfortable capitalisation and strong liquidity profile.

The ratings also consider TFSIN's subdued earnings profile and increase in gross stage 3 assets from 2.4% as of March 2020 to 4.5% in March 2021 and further to 5.8% in September 2021 as the operating environment weakened and growth was impacted due to Covid-19 induced lockdowns. TFSIN's provisions, however, were augmented at 4.5% and 5.0% of the loan book as of March 2021 and September 2021, respectively, vis-a-vis 3.5% in March 2020. TFSIN is facing competitive pressure, which is expected to keep its growth and profitability subdued, at least over the near term. The company is diversifying and has started financing Maruti Suzuki India Limited's (MSIL) vehicles; the share in the overall loan portfolio of TFSIN, however, is presently modest. Going forward, material changes in the credit profile of the TMC Group or its shareholding in TFSIN or significant changes in the group's focus on India in relation to its overall global business strategies would be the key rating sensitivities.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion on TFSIN's comfortable capital and strong liquidity and expectations that it would continue to benefit from the strong support of the TMC Group.

Key rating drivers and their description

Credit strengths

Strong parentage: By virtue of its parentage (wholly-owned subsidiary of TFSC and wholly-owned step-down subsidiary of TMC), TFSIN derives substantial operational, financial and management support from TFSC and TMC. TFSC exercises managerial control in TFSIN, which reflects its significance to the Group. Regular operational reporting and monitoring by TFSC's regional headquarters in Singapore and periodic reviews and senior management engagements indicate a high level of

¹ Moody's has a long-term rating of A1 (Stable) on TFSC

² Moody's has a long-term rating of A1 (Stable) on TMC

integration within the Group. Moreover, TFSIN receives regular guidance from TFSC in matters pertaining to treasury, debt raising and risk management. It has adequate risk management policies and benefits from TFSC's global best practices.

Experienced board and management team – TFSIN's five-member board of directors comprises the managing director (MD) & the chief executive officer (CEO), two representatives from TFSC, one from TKM and one independent director, with diverse experience in the financial services, automotive, risk management and manufacturing sectors. The company also has a strong senior management team with significant experience across banking, audit, sales and marketing, treasury, information technology (IT) and human resources. This team takes care of TFSIN's day-to-day business. Additionally, the company benefits from management support and regular guidance from TFSC.

Comfortable capitalisation profile – TFSIN's capitalisation remains comfortable with a capital adequacy ratio (CRAR) of 20.1% as on September 30, 2021, supported by timely equity infusions from TFSC in the past. TFSC has infused an equity capital of Rs. 1,290 crore in TFSIN so far. As observed in the past, TFSC capitalises the company well in advance to support the envisaged growth. TFSIN's gearing was moderate at 3.9x as on September 30, 2021. ICRA expects the company to maintain comfortable capitalisation over the near to medium term.

Credit challenges

Competitive business segment- TFSIN was incorporated in May 2011 and commenced operations in June 2012. The auto financing space is highly competitive and comprises large banks and non-banking financial companies. TFSIN's loan book declined to Rs. 6,946 crore in September 2021 compared with Rs. 7,142 crore in March 2021 and Rs. 7,119 crore in March 2020 due to the subdued performance of the auto sector and lower disbursements on account of the pandemic. The loan book's growth is expected to remain subdued in the current fiscal with some revival expected in the next financial year. In the recent past, 16-18% of TKM's sales have been financed by TFSIN pan-India. The company is diversifying and has started financing MSIL vehicles; the share of the same in the overall book, however, is modest at present. The company's medium-term business growth would be closely linked to TKM's sales and market share going forward.

Relatively weak asset quality - The company's gross stage 3 assets (as per IndAS) deteriorated to 5.8% in September 2021 from 4.5% in March 2021 and 2.4% as on March 2020 due to the delinquencies in the retail segment. The ratios are also impacted by the stagnant portfolio between March 2020 and March 2021 and the decline in H1 FY2022. Countrywide localised lockdowns triggered by the second wave of the pandemic impacted disbursements and collections in Q1 FY2022. The total outstanding restructured portfolio (restructured as per RBI resolution framework 1.0 and 2.0) as on September 30, 2021 stood at 48.7 crore (0.7% of the portfolio outstanding as on September 30, 2021). TFSIN augmented its provisions in FY2021 and H1 FY2022, which stood at 4.5% and 5.0% of the loan book as of March 2021 and September 2021, respectively, vis-a-vis 3.5% in March 2020. Ability to control incremental slippages and maintain good asset quality would remain crucial going forward.

Subdued profitability- The company had reported a profit of Rs.28.1 crore in H1 FY2022 compared with a profit of Rs. 52.1 crore in FY2021(the company reported a loss of Rs. 49.8 crore in FY2020). TFSIN's return on average managed assets [profit after tax (PAT)/average managed assets (AMA)] stood at 0.8% as of September 2021 compared with 0.7% in FY2021. Provisions and write-offs moderated to 1.6% of the AMA in H1 FY2022 and 1.4% in FY2021 from 2.5% in FY2020. The operating expenses ratio, however, increased to 1.9% in H1 FY2022 from 1.4-1.6% over the previous four years as the portfolio moderated. Going forward, TFSIN's ability to achieve optimal operational efficiencies, diversify its income avenues and contain the credit costs would remain crucial to support its profitability metrics in a market characterised by high competition.

Liquidity position: Strong

As of September 30, 2021, TFSIN's liquidity position remained strong with cash and liquid investments of about Rs. 306.6 crore and sanctioned and available funding lines of Rs. 4,345.6 crore. The company has debt repayments of Rs. 1,225 crore between October 2021 and March 2022. It had outstanding borrowings of Rs. 5,422 crore as on September 30, 2021, comprising non-convertible debentures (33%), external commercial borrowing loans (29%), bank lines (22%), masala bonds (13%) and

commercial paper (3%). TFSIN's ALM position as on September 30, 2021, remains positive up to a period of 1 year, on a cumulative basis.

Rating sensitivities

Positive factors – Not Applicable

Negative factors – Any significant deterioration in the credit profile of the TMC Group or lower-than-expected support from the Group.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Non-banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	The ratings draw support from TMC group.
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company.

About the company

Toyota Financial Services India Limited is a non-deposit taking, non-banking financial company registered with the Reserve Bank of India. It primarily provides retail financing for the Toyota brand of cars. Additionally, it offers financing for Toyota dealers in the form of inventory funding and infrastructure term loans. TFSIN is a wholly-owned subsidiary of Toyota Financial Services Corporation (TFSC), which, in turn, is a wholly-owned subsidiary of Toyota Motor Corporation (TMC).

TFSIN reported a net profit of Rs. 28.1 crore in H1 FY2022 on a portfolio of Rs. 6,946.0 crore. The company had reported a net profit of Rs. 52.1 crore in FY2021 on a portfolio of Rs. 7,142.0 crore in FY2021.

About TMC

Established in 1937 and headquartered in Japan, Toyota Motor Corporation (TMC) is Japan's largest auto manufacturer. It manufactures cars, trucks and buses and has a geographically diversified presence across North America, Europe, Latin America and Southeast Asia. TMC reported a net income of JPY 1,565.1 billion on net revenues of JPY 15,481 billion in H1 FY2022.

TFSC is a wholly-owned subsidiary of TMC and acts as a holding company for the Group's captive finance companies in various regions. TFSC has business in more than 41 countries at present.

Key financial indicators (audited)

Toyota Financial Services India Limited	FY2020	FY2021	*H1 FY2022
	Ind AS	IndAS	IndAS
Total income	719.7	690.1	340.2
Profit after tax	(49.8)	52.1	28.1
Net worth	1,352.0	1,404.3	1,432.3
Total managed portfolio	7,119.1^	7,142.0^	6,946.0^
Total managed assets	7,821.2^	7,574.7^	7,470.7 ^
Return on managed assets	-0.63%	0.68%	0.75%
Return on net worth	-3.61%	3.78%	3.97%

Toyota Financial Services India Limited	FY2020	FY2021	*H1 FY2022
	Ind AS	IndAS	IndAS
Gearing (times)	4.56	4.07	3.88
Gross NPA (%)	2.38%	4.48%	5.80%
Net NPA (%)	0.81%	1.93%	2.71%
Capital adequacy ratio (%)	19.41%	19.51%	20.11%

Source: Company, ICRA Research; All ratios as per ICRA calculations; *Excluding recovery of bad debts; Considering gross advances
Amount in Rs. Crore; *as per limited review financials of TFSIN

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount Rated (Rs. crore)	Amount O/s (Rs. crore)	Current Rating (FY2022)		Chronology of Rating History for the Past 3 Years						
					Date and Rating in FY2022		Date and Rating in FY2021				Date and Rating in FY2020	Date and Rating in FY2019	
					Dec-27-21	Jul-30-21	Mar-23-21	Feb-15-21	Oct-05-20	Jun-22-20	Jan-07-20	Mar-28-19	Jul-25-18
1	Long-term fund-based facilities	LT	1,040.0	1,040.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
2	Short-term fund-based facilities	ST	157.5	157.5	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
3	Non-convertible debentures	LT	1,700.0	1,700.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Non-convertible debentures	LT	300.0	300.0	[ICRA]AAA (Stable)	-	-	-	-	-	-	-	-
5	Commercial paper	ST	1,000.0	1,000.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Source: Company; LT – Long term; ST – Short term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible Debentures	Very Simple
Commercial Paper	Very Simple
Bank Facilities	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE692Q07258	Non-convertible debentures	Jan-28-19	8.60%	Jan-28 -22	125.00	[ICRA]AAA(Stable)
INE692Q07282	Non-convertible debentures	Jun-04-20	6.75%	May-30 -22	175.00	[ICRA]AAA(Stable)
INE692Q07274	Non-convertible debentures	Mar-17-20	6.75%	Jun-16-23	150.00	[ICRA]AAA(Stable)
INE692Q07290	Non-convertible debentures	Aug-21-20	5.65%	Jul-28-22	175.00	[ICRA]AAA(Stable)
INE692Q07316	Non-convertible debentures	Feb-24-21	5.70%	Feb-07-24	300.00	[ICRA]AAA(Stable)
INE692Q07324	Non-convertible debentures	Mar-12-21	5.735%	Mar-12-24	275.00	[ICRA]AAA(Stable)
INE692Q07332	Non-convertible debentures	Mar-24-21	5.45%	Jan-31-23	150.00	[ICRA]AAA(Stable)
INE692Q07340	Non-convertible debentures	Jun-30-21	5.68%	Jun-8-24	200.00	[ICRA]AAA(Stable)
NA	Non-convertible debentures*	-	-	-	450.00	[ICRA]AAA(Stable)
NA	Long-term fund-based limits	Feb 2020 to Sep 2020	-	NA	1,040.00	[ICRA]AAA(Stable)
NA	Short-term fund-based limits	-	-	-	157.50	[ICRA]A1+
INE692Q14A06	Commercial paper	27-Sep-21	4.25%	27-Sep-21	50.00	[ICRA]A1+
INE692Q14AP3	Commercial paper	28-Sep-21	4.00%	20-May-22	50.00	[ICRA]A1+
INE692Q14AQ1	Commercial paper	29-Sep-21	4.20%	28-Apr-22	50.00	[ICRA]A1+
Unallocated	Commercial paper**				850.00	[ICRA]A1+

Source: Company; Amounts in Rs. crore; *Unallocated; **Unutilised

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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